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MONTGOMERY COUNTY MEMORIAL HOSPITAL
INDEPENDENT AUDITOR'S REPORT
FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION
YEARS ENDED JUNE 30, 2012 AND 2011

MONTGOMERY COUNTY MEMORIAL HOSPITAL

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MONTGOMERY COUNTY MEMORIAL HOSPITAL
Officials
June 30, 2012

<u>Board of Trustees:</u>	<u>Address</u>	<u>Term Expires</u>
Jim Robinson, Chair	Villisca, Iowa	2016
Lorin Petersen, Vice-Chair	Stanton, Iowa	2014
Kenneth Rech, Treasurer	Red Oak, Iowa	2014
Kathy Carlson, Secretary	Red Oak, Iowa	2012
Sarah Smith	Red Oak, Iowa	2014
Roger Ehmke	Red Oak, Iowa	2016
Kevin Cabbage	Stanton, Iowa	2012
<u>Chief Executive Officer:</u>		
Allen E. Pohren	Red Oak, Iowa	
<u>Chief Financial Officer:</u>		
Rick Leinen	Red Oak, Iowa	

Gronewold, Bell, Kyhnn & Co. P.C.

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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
Montgomery County Memorial Hospital
Red Oak, Iowa

We have audited the accompanying balance sheets of Montgomery County Memorial Hospital as of June 30, 2012 and 2011, and the related statements of revenues, expenses and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

The financial statements do not include financial data for the Hospital's legally separate component unit, Montgomery County Memorial Hospital Foundation. Accounting principles generally accepted in the United States of America require the financial data for the component unit to be reported with the financial data of the Hospital unless the Hospital also issues financial statements for the financial reporting entity that include the financial data for its component unit. The Hospital has not issued such reporting entity financial statements. Because of this departure from accounting principles generally accepted in the United States of America, the assets, net assets, and revenues of the reporting entity have been reported differently by amounts as described in Note A.

In our opinion, except for the effects of omitting the blended component unit, as discussed previously, the financial statements referred to above present fairly, in all material respects, the financial position of the Montgomery County Memorial Hospital reporting entity as of June 30, 2012 and 2011 and the changes in financial position and cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Further, in our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Montgomery County Memorial Hospital as of June 30, 2012 and 2011, and the results of its operations, changes in net assets, and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

To the Board of Trustees
Montgomery County Memorial Hospital

In accordance with Government Auditing Standards, we have also issued our report dated December 12, 2012 on our consideration of Montgomery County Memorial Hospital's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and important for assessing the results of our audit.

Accounting principles generally accepted in the United States of America require Management's Discussion and Analysis and the Budgetary Comparison Information on pages 4 through 4e and on page 23 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board which considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with U.S. generally accepted auditing standards, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the required supplementary information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise Montgomery County Memorial Hospital's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2010 (which are not presented herein) and expressed unqualified opinions on those financial statements. The supplementary information on pages 1 and 24 through 41 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

G. M. M. M., Bear, Kuhn & Co. P.C.

Atlantic, Iowa
December 12, 2012



Montgomery County Memorial Hospital

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MONTGOMERY COUNTY MEMORIAL HOSPITAL Management's Discussion and Analysis

Our discussion and analysis of Montgomery County Memorial Hospital's financial performance provides an overview of the Hospital's financial activity for the fiscal years ended June 30, 2012, 2011, and 2010. Please read it in conjunction with the Hospital's financial statements, which begin on page 5.

FINANCIAL HIGHLIGHTS

The Hospital's net assets increased in 2012 by \$799,214, or 3.4 percent. The Hospital's net assets decreased in 2011 by \$538,413 or 2.2 percent.

The Hospital reported an operating loss of \$630,987 in 2012 and an operating loss of \$1,839,090 in 2011. In 2010, the Hospital reported an operating loss of \$626,698.

Non-operating revenues were \$1,337,085 in 2012, \$1,255,677 in 2011, and \$1,398,090 in 2010. The largest component of nonoperating revenues is county taxes, which have been approximately \$1.4 million each year (\$1.46 million in 2012).

USING THIS ANNUAL REPORT

The Hospital's financial statements consist of three statements - a Balance Sheet; a Statement of Revenues, Expenses, and Changes in Net Assets; and a Statement of Cash Flows. These financial statements and related notes provide information about the activities of the Hospital, including resources held by the Hospital but restricted for specific purposes by contributors, grantors, or enabling legislation.

THE BALANCE SHEET AND STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

Our analysis of the Hospital finances begins on page 4a. One of the most important questions asked about the Hospital's finances is, "Is the Hospital as a whole better or worse off as a result of the year's activities?" The Balance Sheet and the Statement of Revenues, Expenses, and Changes in Net Assets report information about the Hospital's resources and its activities in a way that helps answer this question. These statements include all restricted and unrestricted assets and all liabilities using the accrual basis of accounting. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Hospital's net assets and changes in them. The Hospital's net assets, the difference between assets and liabilities, are one way to measure the Hospital's financial health, or financial position. Over time, increases or decreases in the Hospital's net assets are one indicator of whether its financial health is improving or deteriorating. Other non-financial factors, however, such as changes in the Hospital's patient base and measures of the quality of service it provides to the community, as well as local economic factors must be considered to assess the overall health of the Hospital.

MONTGOMERY COUNTY MEMORIAL HOSPITAL
Management's Discussion and Analysis - Continued

THE STATEMENT OF CASH FLOWS

The final required statement is the Statement of Cash Flows. This statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities. It explains what activities generated cash, how cash was used, and the change in the cash balance during the reporting period.

THE HOSPITAL'S NET ASSETS

The Hospital's net assets are the difference between its assets and liabilities reported in the Balance Sheet on page 5. The Hospitals' net assets increased \$799,214 or 3.4 percent in 2012 and decreased \$538,413 or 2.2 percent in 2011, as you can see in Table 1.

Table 1: Assets, Liabilities, and Net Assets

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Assets:			
Current assets	\$ 8,491,206	\$ 8,758,044	\$ 8,838,013
Capital assets, net	21,455,529	21,924,713	20,655,089
Other noncurrent assets	<u>7,026,323</u>	<u>6,098,496</u>	<u>4,254,770</u>
Total assets	<u>\$ 36,973,058</u>	<u>\$ 36,781,253</u>	<u>\$ 33,747,872</u>
Liabilities:			
Long-term debt outstanding	\$ 7,632,880	\$ 8,174,106	\$ 4,589,123
Other current and noncurrent liabilities	<u>4,846,394</u>	<u>4,912,577</u>	<u>4,925,766</u>
Total liabilities	<u>\$ 12,479,274</u>	<u>\$ 13,086,683</u>	<u>\$ 9,514,889</u>
Net Assets:			
Invested in capital assets, net of related debt	\$ 12,791,622	\$ 12,434,809	\$ 15,138,405
Restricted expendable net assets	71,343	71,197	823,559
Unrestricted	<u>11,630,819</u>	<u>11,188,564</u>	<u>8,271,019</u>
Total net assets	<u>\$ 24,493,784</u>	<u>\$ 23,694,570</u>	<u>\$ 24,232,983</u>
Total liabilities and net assets	<u>\$ 36,973,058</u>	<u>\$ 36,781,253</u>	<u>\$ 33,747,872</u>

MONTGOMERY COUNTY MEMORIAL HOSPITAL
Management's Discussion and Analysis - Continued

OPERATING RESULTS AND CHANGES IN THE HOSPITAL'S NET ASSETS

Table 2 shows the components of the operating and nonoperating activities and the resulting effect on changes in net assets.

Table 2: Operating Results and Changes in Net Assets

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Operating Revenues:			
Net patient service revenues	\$ 26,501,171	\$ 25,394,158	\$ 24,648,750
Other operating revenues	<u>389,145</u>	<u>335,312</u>	<u>388,907</u>
Total operating revenues	26,890,316	25,729,470	25,037,657
Operating Expenses:			
Salaries and wages	12,687,076	12,517,178	12,223,870
Employee benefits	4,017,723	3,681,276	3,464,279
Professional fees	1,823,963	1,816,852	1,929,763
Other operating expenses	6,745,428	7,122,000	6,383,284
Depreciation and amortization	<u>2,247,113</u>	<u>2,431,254</u>	<u>1,663,159</u>
Total operating expenses	<u>27,521,303</u>	<u>27,568,560</u>	<u>25,664,355</u>
Operating loss	(630,987)	(1,839,090)	(626,698)
Nonoperating Revenues and Expenses:			
County taxes	1,458,468	1,366,800	1,291,992
Investment income	23,365	31,948	59,805
Noncapital grants and contributions	25,403	19,870	28,706
Other nonoperating revenues (expenses), net	<u>(170,151)</u>	<u>(162,941)</u>	<u>17,587</u>
Total nonoperating revenues, net	<u>1,337,085</u>	<u>1,255,677</u>	<u>1,398,090</u>
Excess of Revenues Over Expenses (Expenses Over Revenues) Before Capital Grants and Contributions	706,098	(583,413)	771,392
Capital Grants and Contributions	<u>93,116</u>	<u>45,000</u>	<u>64,395</u>
Increase (Decrease) in Net Assets	799,214	(538,413)	835,787
Net Assets Beginning of Year	<u>23,694,570</u>	<u>24,232,983</u>	<u>23,397,196</u>
Net Assets End of Year	<u>\$ 24,493,784</u>	<u>\$ 23,694,570</u>	<u>\$ 24,232,983</u>

MONTGOMERY COUNTY MEMORIAL HOSPITAL
Management's Discussion and Analysis – Continued

OPERATING INCOME AND LOSS

The first component of the overall change in the Hospital's net assets is its operating income (loss) - generally, the difference between net patient service revenues and the expenses incurred to perform those services. In 2012, the Hospital had an operating loss of (\$630,987); in 2011, it was (\$1,839,090); and in 2010, the Hospital had an operating loss of (\$626,698). The operating loss in 2012 represents a decrease of \$1,208,103 from the loss in 2011, and the operating loss in 2011 represents an increase of \$1,212,392 from the loss in 2010.

The primary components of these operating income and operating losses are:

Net patient service revenue increased \$1,107,013 or 4.4 percent from 2011 to 2012. Components of this include \$1,650,964 in increased patient charges (4.1%), \$692,377 in increased contractual adjustments (5.0%), and increased \$122,837 provision for bad debts and charity care. Accounts written off were lower from 2012 to 2011. The aging of accounts receivable shows a trend of newer accounts on the Hospital's books. It should also be noted that part of the increase in patient charges and related contractual adjustments are due to the hospital assuming management of Red Oak Internal Medicine for the years in 2010, 2011, and 2012. In addition, Surgical Services were provided. Contractual adjustments include Medicaid EHR incentive payments.

In 2012, contractual adjustments are 34.5 percent of patient service revenue, compared to 34.2 percent of patient service revenue in 2011, 31.8 percent in 2010, 32.6 percent in 2009, and 28.2 percent in 2008. Contractual adjustments have improved since 2004, 38.0 percent, because of the Hospital's designation as a Critical Access Hospital (CAH) effective October 1, 2004 by the Centers for Medicare and Medicaid Services. As a CAH, the Hospital is reimbursed defined costs for services provided to Medicare and Medicaid patients. Medicare patients represent about 58 percent of the Hospital's patient service revenue in 2012 (61.4 percent in 2011). Medicaid represents about 8.0 percent of the Hospital's patient service revenues in 2012 (7.3 percent in 2011).

Numerous factors affect the contractual adjustments, including changes in volume and patient mix, and the cost of labor, benefits, purchased services and supplies needed to provide patient services. The Hospital is reimbursed by Medicare and Medicaid at tentative rates until final settlement with the fiscal intermediaries. At the date of this report, two years of Medicare and three years of Medicaid cost reports have yet to be finalized.

In addition, the Hospital has payment contracts with commercial insurance carriers and preferred provider organizations that include discounts from established charges and prospectively determined rates as a basis of reimbursement. Many of the non-Medicare contractals are increasing significantly. In particular, the Hospital's Wellmark business is at 19.0% for 2012 as compared to 16.7% for 2011. With new payment systems in place we expect Wellmark's contractual allowances to decrease in 2013.

Salaries and wages costs increased \$169,898 or 1.4 percent from 2011 to 2012. Employee benefits increased \$336,447 or 9.2 percent in 2012. The Hospital purchased an indemnity employee health insurance plan in calendar 2008 after 12 years of administering a self-insured plan.

MONTGOMERY COUNTY MEMORIAL HOSPITAL Management's Discussion and Analysis - Continued

Total operating expenses decreased \$47,257 or .2 percent from 2011 to 2012. Included in this is a decrease in depreciation and amortization expense of \$184,141 or 7.6 percent. Depreciation includes the completion of the hospital's addition in August, 2010. Investments in new technology and replacement of aging capital assets in the past three years are resulting in decreased depreciation and equipment maintenance costs.

The Hospital sometimes provides care for patients who have little or no health insurance or other means of repayment. This service to the community is consistent with the goals established for the Hospital when it was established. Because there is no expectation of repayment, charity care is not reported as net patient service revenues of the Hospital.

NONOPERATING REVENUES AND EXPENSES

Nonoperating revenues consist primarily of property taxes levied by the Hospital and investment earnings. The property valuation is calculated as of July 1 each year and used as the basis for tax levies on January 1.

GRANTS, CONTRIBUTIONS, AND ENDOWMENTS

The Hospital receives contributions from the Montgomery County Memorial Hospital Foundation, the Montgomery County Memorial Hospital Auxiliary, and from individual donors. The Hospital receives both capital and operating grants from various state and federal agencies for specific programs. These are discussed in Note A.13 to the financial statements.

THE HOSPITAL'S CASH FLOWS

Changes in the Hospital's cash flows are consistent with changes in operating losses and nonoperating revenues and expenses, discussed earlier.

BUDGETARY HIGHLIGHTS

The official county budget of the Hospital for the year ended June 30, 2012 was prepared on a modified accrual basis. Hospital gross operating revenue and operating expenditures were less than budgeted amounts during 2012 by \$3,816,047 and \$5,873,786, respectively. The budgeted amounts were higher due to higher anticipated debt proceeds, construction expenditures and patient volume.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets:

At the end of 2012, the Hospital had \$21,455,529 invested in capital assets, net of accumulated depreciation (\$21,924,713 in 2011), as detailed in Note F to the financial statements. In 2012, the Hospital purchased new property and equipment costing \$1,502,066 (\$1,036,204 in 2011; \$943,233 in 2010). In 2012 the Hospital removed historical assets no longer in use or present amounting to \$3,679,943.

During the year ended June 30, 2011, the Hospital capitalized its long-term site development, renovation and expansion of the existing facility with a total cost of \$15,142,628.

MONTGOMERY COUNTY MEMORIAL HOSPITAL
Management's Discussion and Analysis - Continued

Debt:

At year-end, the Hospital had \$8,074,502 in long-term debt outstanding as detailed in Note G (\$8,634,457 at June 30, 2011).

CONTACTING THE HOSPITAL'S FINANCIAL MANAGEMENT

This financial report is designed to provide our patients, suppliers, taxpayers, and creditors with a general overview of the Hospital's finances and to show the Hospital's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Hospital Chief Financial Officer or Controller at Montgomery County Memorial Hospital, Red Oak, Iowa.

MONTGOMERY COUNTY MEMORIAL HOSPITAL
Balance Sheets
June 30,

ASSETS

	<u>2012</u>	<u>2011</u>
Current Assets:		
Cash	\$ 1,657,621	\$ 1,890,890
Patient receivables, less allowances for doubtful accounts and contractual adjustments (\$1,519,000 in 2012, \$1,338,447 in 2011)	4,644,340	3,540,884
Other receivables	62,379	56,797
Inventory	396,487	413,594
Prepaid expense	168,973	430,890
Estimated third party payor settlements	--	938,000
Succeeding year property tax receivable	1,469,000	1,395,000
Internally designated assets	<u>92,406</u>	<u>91,989</u>
Total current assets	8,491,206	8,758,044
Designated and Restricted Assets:		
Internally designated assets	6,424,608	5,504,845
Restricted assets	<u>71,343</u>	<u>71,197</u>
	6,495,951	5,576,042
Less amounts required to meet current liabilities	<u>92,406</u>	<u>91,989</u>
	6,403,545	5,484,053
Capital Assets:		
Depreciable capital assets, net	21,051,974	21,821,373
Non-depreciable capital assets	<u>403,555</u>	<u>103,340</u>
	21,455,529	21,924,713
Other Assets:		
Notes receivable	25,000	15,000
Debt issue costs	103,961	131,868
Other	<u>493,817</u>	<u>467,575</u>
	622,778	614,443
Total assets	<u>\$ 36,973,058</u>	<u>\$ 36,781,253</u>

The accompanying notes are an integral part of these statements.

LIABILITIES AND NET ASSETS

	<u>2012</u>	<u>2011</u>
Current Liabilities:		
Current maturities of long-term debt	\$ 434,609	\$ 430,524
Accounts payable	1,167,688	1,670,469
Accrued salaries and wages	453,974	368,169
Accrued other employee compensation	820,511	785,255
Accrued interest payable	29,671	31,507
Accrued fees	19,219	17,719
Payroll taxes withheld and accrued	226,557	179,141
Other current liabilities	18,165	34,793
Estimated third-party payor settlements	207,000	--
Deferred revenue for succeeding year property tax receivable	<u>1,469,000</u>	<u>1,395,000</u>
Total current liabilities	4,846,394	4,912,577
Long-Term Debt:		
Notes payable, less unamortized refunding costs and current maturities	7,632,880	8,067,490
Capital lease obligations, less current maturities	<u>--</u>	<u>106,616</u>
Total long-term debt	7,632,880	8,174,106
Total liabilities	12,479,274	13,086,683
Net Assets:		
Invested in capital assets, net of related debt	12,791,622	12,434,809
Restricted - expendable	71,343	71,197
Unrestricted	<u>11,630,819</u>	<u>11,188,564</u>
Total net assets	24,493,784	23,694,570
Total liabilities and net assets	<u>\$ 36,973,058</u>	<u>\$ 36,781,253</u>

MONTGOMERY COUNTY MEMORIAL HOSPITAL
Statements of Revenues, Expenses and Changes in Net Assets
Year ended June 30,

	<u>2012</u>	<u>2011</u>
Revenue:		
Net patient service revenue	\$ 26,501,171	\$ 25,394,158
Other revenue	<u>389,145</u>	<u>335,312</u>
Total revenue	26,890,316	25,729,470
Expenses:		
Nursing service	6,839,283	6,870,093
Other professional service	11,841,591	11,680,695
General service	2,581,464	2,580,508
Fiscal and administrative service	4,011,852	4,006,010
Provision for depreciation	2,219,206	2,414,771
Amortization	<u>27,907</u>	<u>16,483</u>
Total expenses	<u>27,521,303</u>	<u>27,568,560</u>
Operating Loss	(630,987)	(1,839,090)
Non-Operating Revenue (Expenses):		
County taxes	1,458,468	1,366,800
Investment income	23,365	31,948
Noncapital grants and contributions	25,403	19,870
Rental income, net	226,676	192,983
Interest expense	<u>(396,827)</u>	<u>(355,924)</u>
Non-operating revenue, net	<u>1,337,085</u>	<u>1,255,677</u>
Excess of Revenues Over Expenses (Expenses Over Revenues) Before Capital Grants and Contributions	706,098	(583,413)
Capital Grants and Contributions	<u>93,116</u>	<u>45,000</u>
Increase (Decrease) in Net Assets	799,214	(538,413)
Net Assets - Beginning of Year	<u>23,694,570</u>	<u>24,232,983</u>
Net Assets - End of Year	<u>\$ 24,493,784</u>	<u>\$ 23,694,570</u>

The accompanying notes are an integral part of these statements.

MONTGOMERY COUNTY MEMORIAL HOSPITAL
Statements of Cash Flows
Year ended June 30,

	<u>2012</u>	<u>2011</u>
Cash flows from operating activities:		
Cash received from patients and third-party payors	\$ 26,537,133	\$ 26,083,293
Cash paid to suppliers	(12,457,428)	(13,099,659)
Cash paid to employees	(12,566,015)	(12,446,765)
Other revenue received	<u>389,145</u>	<u>335,312</u>
Net cash provided by operating activities	1,902,835	872,181
Cash flows from non-capital financing activities:		
County tax received	1,458,468	1,366,800
Noncapital grants and contributions	<u>25,403</u>	<u>19,870</u>
Net cash provided by non-capital financing activities	1,483,871	1,386,670
Cash flows from capital and related financing activities:		
Construction in progress expenditures	(774,311)	(2,233,574)
Purchase of property and equipment	(1,296,919)	(653,367)
Principal paid on long-term debt	(421,774)	(1,923,724)
Principal paid on capital leases	(138,181)	(27,732)
Proceeds on notes payable	--	5,037,326
Interest paid	(400,849)	(339,032)
Capital grants and contributions	<u>93,116</u>	<u>45,000</u>
Net cash used in capital and related financing activities	(2,938,918)	(95,103)
Cash flows from investing activities:		
Investment income received	23,365	31,948
(Increase) decrease in designated and restricted assets	(7,106)	1,006,594
Increase in notes receivable, net	(25,000)	--
Office building rental income	279,125	244,147
Increase in other assets	<u>(38,638)</u>	<u>(42,655)</u>
Net cash provided by investing activities	<u>231,746</u>	<u>1,240,034</u>
Net increase in cash and cash equivalents	679,534	3,403,782
Cash and cash equivalents at beginning of year	<u>5,607,764</u>	<u>2,203,982</u>
Cash and cash equivalents at end of year	<u>\$ 6,287,298</u>	<u>\$ 5,607,764</u>

(continued next page)

MONTGOMERY COUNTY MEMORIAL HOSPITAL
Statements of Cash Flows - Continued
Year ended June 30,

	<u>2012</u>	<u>2011</u>
Reconciliation of cash and cash equivalents to the balance sheets:		
Cash in current assets	\$ 1,657,621	\$ 1,890,890
Cash and cash equivalents in internally designated assets	<u>4,629,677</u>	<u>3,716,874</u>
	<u>\$ 6,287,298</u>	<u>\$ 5,607,764</u>
Reconciliation of operating loss to net cash provided by operating activities:		
Operating loss	\$(630,987)	\$(1,839,090)
Adjustments to reconcile operating loss to net cash provided by operating activities		
Provision for depreciation	2,219,206	2,414,771
Amortization	55,303	106,852
Changes in assets and liabilities		
Accounts receivable	(1,109,038)	1,073,135
Inventory	17,107	(15,639)
Prepaid expense	261,917	(11,285)
Estimated third-party payor settlements	1,145,000	(384,000)
Accounts payable, trade	(209,022)	(545,481)
Accrued salaries and wages	85,805	40,520
Accrued other employee compensation	35,256	29,893
Payroll taxes withheld and accrued	47,416	4,100
Accrued fees	1,500	(6,381)
Other current liabilities	<u>(16,628)</u>	<u>4,786</u>
Total adjustments	<u>2,533,822</u>	<u>2,711,271</u>
Net cash provided by operating activities	<u>\$ 1,902,835</u>	<u>\$ 872,181</u>

Non-Cash Transactions:

The Hospital also incurred the following non-cash transactions in addition to the transactions reflected in the reconciliation of operating loss to net cash provided by operating activities:

	<u>2012</u>	<u>2011</u>
Capital lease was entered into for the purchase of equipment	<u>\$ --</u>	<u>\$ 165,913</u>
Deferred loss on asset	<u>\$ --</u>	<u>\$ 61,977</u>

The accompanying notes are an integral part of these statements.

MONTGOMERY COUNTY MEMORIAL HOSPITAL
Notes to Financial Statements
June 30, 2012 and 2011

NOTE A - REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES

1. Reporting Entity

Montgomery County Memorial Hospital (the Hospital) is a critical access county hospital that provides acute care with related ancillary, outpatient, home health hospice and physician clinic services. The Hospital is organized under Chapter 347 of the Code of Iowa, accordingly is a political subdivision of the State of Iowa, and is therefore exempt from federal and state income taxes. It is governed by a seven member board of trustees elected for six year terms. The Hospital has considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the Hospital are such that exclusion would cause the Hospital's financial statements to be misleading or incomplete. The criteria for determining financial accountability include: appointing a majority of an organization's governing body, and (a) the Hospital's ability to impose its will on that organization, or (b) the potential for the organization to provide benefits to or impose financial burdens on the Hospital.

The Hospital has one component unit. The Montgomery County Memorial Hospital Foundation is a component unit because the Hospital is the sole beneficiary of the Foundation. It has limited net assets and activity other than collecting contributions to be disbursed to the Hospital. Therefore, combining the component unit would not have a material effect on these financial statements.

The following summary shows the net increase or (decrease) blending the component would have on the assets, net assets, and revenues of Montgomery County Memorial Hospital as of and for the year ended June 30:

	<u>2012</u>	<u>2011</u>
Assets would increase by	\$ <u>188,606</u>	\$ <u>197,996</u>
Net Assets would increase by	\$ <u>188,606</u>	\$ <u>197,996</u>
Revenues would increase (decrease) by	\$(<u>9,390</u>)	\$ <u>12,273</u>

2. Enterprise Fund Accounting

The Hospital uses enterprise fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus. Based on Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, as amended, the Hospital has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB), that do not conflict with or contradict GASB pronouncements.

MONTGOMERY COUNTY MEMORIAL HOSPITAL
Notes to Financial Statements
June 30, 2012 and 2011

NOTE A - REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES - Continued

3. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

4. Cash and Cash Equivalents

Cash and cash equivalents include investments in highly liquid debt instruments with a maturity of three months or less, including designated and restricted assets.

5. Inventory Valuation

Inventory is valued at the lower of cost (first-in, first-out method) or market.

6. Investments

Investments are reported at fair value except for short-term highly liquid investments that have a remaining maturity at the time they are purchased of one year or less. These investments are carried at amortized cost. Interest, dividends, and gains and losses, both realized and unrealized, on investments are included in non-operating revenue when earned, unless restricted by donor or law.

7. Capital Assets

The Hospital's capital assets are reported at historical cost. Contributed capital assets are reported at their estimated fair value at the time of their donation. Capital assets with lives in excess of three years and cost in excess of \$5,000 are capitalized. These capital assets, other than land, are depreciated or amortized (in the case of capital leases) using the straight-line method of depreciation using their estimated useful lives (fifteen to fifty years for buildings and land improvements and three to twenty years for equipment).

8. Costs of Borrowing

Except for capital assets acquired through gifts, contributions, or capital grants, interest cost on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets. The Hospital capitalized interest cost of \$25,000 in 2012 (\$37,644 in 2011).

MONTGOMERY COUNTY MEMORIAL HOSPITAL
Notes to Financial Statements
June 30, 2012 and 2011

NOTE A - REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES - Continued

9. Compensated Absences

Hospital employees earn paid time off at varying rates depending on years of service. Paid time off consists of holiday, vacation and sick time and accumulates to a maximum of 528 hours. Paid time off hours cannot be earned or saved beyond twice the annual amount earned. The computed amount of paid time off benefits earned by year end is recorded as part of accrued other employee compensation.

10. Operating Revenues and Expenses

The Hospital's statement of revenues, expenses and changes in net assets distinguishes between operating and non-operating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services - the Hospital's principal activity. Nonexchange revenues, including taxes, grants, and contributions received for purposes other than capital asset acquisition, are reported as non-operating revenues. Operating expenses are all expenses incurred to provide health care services, other than financing costs.

11. Net Patient Service Revenue

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

12. Property Tax Levy

Property tax receivable is recognized on the levy or lien date, which is the date that the tax asking is certified by the County Board of Supervisors. The succeeding year property tax receivable represents taxes certified by the Board of Supervisors to be collected in the next fiscal year for the purposes set out in the budget for that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred and will not be recognized as revenue until the year for which it is levied. Property tax revenue is reported as non-operating revenue when collected by the County Treasurer.

13. Grants and Contributions

Revenues from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as non-operating revenues. Amounts restricted to capital acquisitions are reported after non-operating revenues and expenses.

MONTGOMERY COUNTY MEMORIAL HOSPITAL
Notes to Financial Statements
June 30, 2012 and 2011

NOTE A - REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES - Continued

14. Endowments

Endowments are provided to the Hospital on a voluntary basis by individuals and private organizations. *Permanent* endowments require that the principal or corpus of the endowment be retained in perpetuity. If a donor has not provided specific instructions, law permits the Board of Trustees to authorize for expenditure the net appreciation of the investments of endowment funds. Currently, the Hospital has no endowment funds.

15. Restricted Resources

Use of restricted or unrestricted resources for individual projects is determined by the Hospital Board of Trustees based on the facts regarding each specific situation.

16. Net Assets

Net assets of the Hospital are classified in three components. *Net assets invested in capital assets net of related debt* consist of capital assets net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. *Restricted net assets* are noncapital net assets that must be used for a particular purpose or permanent endowments, as specified by creditors, grantors, or contributors external to the Hospital, including amounts deposited with trustees as required by revenue bond indentures, discussed in Note G. *Unrestricted net assets* are remaining net assets that do not meet the definition of *invested in capital assets net of related debt or restricted*.

17. Charity Care

The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Revenue from services to these patients is automatically recorded in the accounting system at the established rates, but the Hospital does not pursue collection of the amounts. The resulting adjustments are recorded as bad debts or charity service depending on the timing of the charity determination.

MONTGOMERY COUNTY MEMORIAL HOSPITAL
Notes to Financial Statements
June 30, 2012 and 2011

NOTE B - THIRD-PARTY PAYOR ARRANGEMENTS

A summary of the payment arrangements with major third-party payors follows:

Medicare and Medicaid - Inpatient services and most outpatient services related to program beneficiaries are paid based on a cost reimbursement methodology. The Hospital is reimbursed for the cost of services at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the fiscal intermediaries. The Hospital's Medicare cost report has been audited and finalized by the fiscal intermediaries through June 30, 2010. The Hospital's Medicaid cost report has been audited and finalized by the fiscal intermediaries through June 30, 2009. However, finalized cost reports are subject to re-opening by the intermediaries within three years of the date of finalization. Outpatient services not paid based on a cost reimbursement methodology are paid based on a prospectively determined fee schedule.

The Hospital also has entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment to the Hospital under these agreements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

NOTE C - ENDOWMENTS AND RESTRICTED NET ASSETS

Restricted expendable net assets are available for the following purposes:

	<u>2012</u>	<u>2011</u>
Long-term debt	<u>\$ 71,343</u>	<u>\$ 71,197</u>

The Hospital has no restricted nonexpendable net assets or endowments at June 30, 2012 or 2011.

Following is a summary of the use of temporarily restricted net assets during the year ended June 30:

	<u>2012</u>	<u>2011</u>
Purchase of property and equipment	\$ 93,116	\$ 45,000
Payment of long-term debt	<u>--</u>	<u>752,362</u>
	<u>\$ 93,116</u>	<u>\$ 797,362</u>

MONTGOMERY COUNTY MEMORIAL HOSPITAL
Notes to Financial Statements
June 30, 2012 and 2011

NOTE D - DESIGNATED NET ASSETS

Designated assets remain under the control of the Board of Trustees, which may, at its discretion, later use the funds for other purposes. Of the \$11,630,819 (\$11,188,564 as of June 30, 2011) of unrestricted net assets as of June 30, 2012, \$6,424,608 (\$5,504,845 for 2011) has been designated by the Hospital's Board of Trustees for purposes identified in the following schedule.

	<u>2012</u>	<u>2011</u>
Capital acquisitions and related property taxes	\$ 21,063	\$ 20,792
Operations	<u>6,403,545</u>	<u>5,484,053</u>
	<u>\$ 6,424,608</u>	<u>\$ 5,504,845</u>

NOTE E - DEPOSITS AND INVESTMENTS

The Hospital's deposits at June 30, 2012 were entirely covered by federal depository insurance or the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to ensure there will be no loss of public funds. The investments are all insured, registered, or held by the Hospital or its agent in the Hospital's name. Investments are stated as indicated in Note A.

The Hospital is authorized by statute to invest public funds in obligations of the United States Government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Trustees; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The composition of designated and restricted assets is as follows:

	<u>2012</u>	<u>2011</u>
Internally Designated Assets:		
Cash and cash equivalents	\$ 4,558,334	\$ 3,645,677
Certificates of deposit	1,863,369	1,854,479
Interest receivable	<u>2,905</u>	<u>4,689</u>
	<u>\$ 6,424,608</u>	<u>\$ 5,504,845</u>
Restricted Assets:		
Cash and cash equivalents	<u>\$ 71,343</u>	<u>\$ 71,197</u>

The Hospital's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but the maturities shall be consistent with the needs and use of the Hospital.

MONTGOMERY COUNTY MEMORIAL HOSPITAL
Notes to Financial Statements
June 30, 2012 and 2011

NOTE F - CAPITAL ASSETS

Capital assets, additions, disposals and balances for the years ended June 30, 2012 and 2011 were as follows:

<u>Cost</u>	<u>Balance 2011</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance 2012</u>
Land Improvements	\$ 1,997,439	\$ 27,332	\$ --	\$ 2,024,771
Buildings	14,985,870	118,792	--	15,104,662
Building Components	2,034,693	--	--	2,034,693
Building Service Equipment	11,009,428	70,425	--	11,079,853
Fixed Equipment	1,227,378	6,118	--	1,233,496
Major Movable Equipment	<u>14,543,916</u>	<u>1,279,399</u>	<u>3,679,943</u>	<u>12,143,372</u>
	45,798,724	1,502,066	3,679,943	43,620,847
<u>Depreciation</u>				
Land Improvements	1,068,776	112,750	--	1,181,526
Buildings	3,697,975	631,563	--	4,329,538
Building Components	1,707,622	85,411	--	1,793,033
Building Service Equipment	4,974,591	408,683	--	5,383,274
Fixed Equipment	618,768	9,655	--	628,423
Major Movable Equipment	<u>11,909,619</u>	<u>1,023,403</u>	<u>3,679,943</u>	<u>9,253,079</u>
Total Depreciation	<u>23,977,351</u>	<u>2,271,465</u>	<u>3,679,943</u>	<u>22,568,873</u>
Depreciable Capital Assets, Net	<u>\$ 21,821,373</u>	<u>\$ (769,399)</u>	<u>\$ --</u>	<u>\$ 21,051,974</u>
Construction in Progress	\$ --	\$ 300,215	\$ --	\$ 300,215
Land	<u>103,340</u>	<u>--</u>	<u>--</u>	<u>103,340</u>
Non-Depreciable Capital Assets	<u>\$ 103,340</u>	<u>\$ 300,215</u>	<u>\$ --</u>	<u>\$ 403,555</u>

MONTGOMERY COUNTY MEMORIAL HOSPITAL
Notes to Financial Statements
June 30, 2012 and 2011

NOTE F - CAPITAL ASSETS - Continued

<u>Cost</u>	<u>Balance 2010</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance 2011</u>
Land Improvements	\$ 1,047,211	\$ 950,228	\$ --	\$ 1,997,439
Buildings	7,149,098	7,836,772	--	14,985,870
Building Components	2,034,693	--	--	2,034,693
Building Service Equipment	5,164,966	5,844,462	--	11,009,428
Fixed Equipment	638,239	589,139	--	1,227,378
Major Movable Equipment	<u>13,891,322</u>	<u>958,231</u>	<u>305,637</u>	<u>14,543,916</u>
	29,925,529	16,178,832	305,637	45,798,724
<u>Depreciation</u>				
Land Improvements	967,515	101,261	--	1,068,776
Buildings	3,119,841	578,134	--	3,697,975
Building Components	1,601,335	106,287	--	1,707,622
Building Service Equipment	4,596,304	378,287	--	4,974,591
Fixed Equipment	581,454	37,314	--	618,768
Major Movable Equipment	<u>10,890,711</u>	<u>1,262,568</u>	<u>243,660</u>	<u>11,909,619</u>
Total Depreciation	<u>21,757,160</u>	<u>2,463,851</u>	<u>243,660</u>	<u>23,977,351</u>
Depreciable Capital Assets, Net	<u>\$ 8,168,369</u>	<u>\$ 13,714,981</u>	<u>\$ 61,977</u>	<u>\$ 21,821,373</u>
Construction in Progress	\$ 12,383,380	\$ 2,759,248	\$ 15,142,628	\$ --
Land	<u>103,340</u>	<u>--</u>	<u>--</u>	<u>103,340</u>
Non-Depreciable Capital Assets	<u>\$ 12,486,720</u>	<u>\$ 2,759,248</u>	<u>\$ 15,142,628</u>	<u>\$ 103,340</u>

The property and equipment includes a medical office building attached to the Hospital and related equipment totaling \$3,303,676, of which a portion is rented to local healthcare related organizations. The depreciation expense on all property and equipment totaled \$2,271,465 for the year ended June 30, 2012 (\$2,463,851 in 2011), of which \$52,259 (\$49,080 in 2011) is related to the rental space and is included in the net rental income under non-operating revenue.

MONTGOMERY COUNTY MEMORIAL HOSPITAL
Notes to Financial Statements
June 30, 2012 and 2011

NOTE G - NON-CURRENT LIABILITIES

A schedule of changes in the Hospital's non-current liabilities for the years ended June 30, 2012 and 2011 follows:

	<u>Balance 2011</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 2012</u>	<u>Current Portion</u>
Long-Term Debt:					
Series 2009 note	\$ 8,496,276	\$ --	\$ 421,774	\$ 8,074,502	\$ 441,622
Less unamortized refunding costs	(29,827)	--	(22,814)	(7,013)	(7,013)
Capital Lease Obligation	<u>138,181</u>	<u>--</u>	<u>138,181</u>	<u>--</u>	<u>--</u>
Total Long-Term Debt	<u>\$ 8,604,630</u>	<u>\$ --</u>	<u>\$ 537,141</u>	<u>\$ 8,067,489</u>	<u>\$ 434,609</u>
	<u>Balance 2010</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 2011</u>	<u>Current Portion</u>
Long-Term Debt:					
Series 2003 notes	\$ 1,720,000	\$ --	\$ 1,720,000	\$ --	\$ --
Series 2009 note	3,662,674	5,037,326	203,724	8,496,276	421,774
Less unamortized refunding costs	(66,107)	--	(36,280)	(29,827)	(22,815)
Capital Lease Obligation	<u>--</u>	<u>165,913</u>	<u>27,732</u>	<u>138,181</u>	<u>31,565</u>
Total Long-Term Debt	<u>\$ 5,316,567</u>	<u>\$ 5,203,239</u>	<u>\$ 1,915,176</u>	<u>\$ 8,604,630</u>	<u>\$ 430,524</u>

The Series 2003 Hospital Revenue Refunding Capital Loan Notes were issued in December, 2003, with varying interest rates ranging from 1.50% to 4.60%. The notes were issued to refund the Series 1993 bonds. The notes matured in semi-annual installments through June, 2013. The Hospital had pledged its future revenues (net of certain expenses) to repay the notes. The final two payments totaling \$1,160,000 were paid with proceeds from the Series 2009 note on December 1, 2010.

The Series 2009 Revenue and Refunding Capital Loan Note was issued in September, 2009 in a principal amount up to \$8,700,000. The note was issued to refund the Series 2003 notes and pay for a renovation and expansion project. The note carries an interest rate of 4.625% per annum through December 1, 2015. On December 1, 2015 and again on December 1, 2020, the rate will be adjusted to 1.375% over the five year Federal Home Loan Bank of Des Moines fixed advance rate in effect on those dates. Such rate increases, however, will be limited to a 1.75% increase over the preceding effective interest rate. Interest only on outstanding principal was payable monthly through December 1, 2010. Commencing December 1, 2010, the note matures in 60 equal quarterly installments (as adjusted for changes in the interest rate) of principal and interest.

MONTGOMERY COUNTY MEMORIAL HOSPITAL
Notes to Financial Statements
June 30, 2012 and 2011

NOTE G - NON-CURRENT LIABILITIES - Continued

The note is collateralized by future revenues of the Hospital. Under the terms of the note indenture, the Hospital is required to satisfy certain measures of financial performance as long as the note is outstanding. The note indenture also places limits on the incurrence of additional borrowings. The Hospital is also required to maintain certain deposits with a bank. Such deposits are included with restricted assets in the financial statements.

The annual debt service on the notes and capital lease obligation is expected to require less than 29% of cash flow available for debt service. For the current year, debt service and cash flow for debt were approximately \$960,800 and \$3,350,000, respectively.

Scheduled principal and interest repayments on the long-term debt are as follows:

Year Ending June 30,	Long-Term Debt		Total
	Principal	Interest	
2013	\$ 441,622	\$ 365,860	\$ 807,482
2014	462,404	345,078	807,482
2015	484,164	323,318	807,482
2016	506,948	300,534	807,482
2017	530,804	276,678	807,482
2018-2022	3,053,056	984,354	4,037,410
2023-2026	<u>2,595,504</u>	<u>230,683</u>	<u>2,826,187</u>
	<u>\$ 8,074,502</u>	<u>\$ 2,826,505</u>	<u>\$ 10,901,007</u>

Total interest cost for the year ended June 30, 2012 was \$421,827 (\$393,568 in 2011). Interest of \$25,000 (\$37,644 in 2011) was capitalized as part of the cost of construction in progress.

MONTGOMERY COUNTY MEMORIAL HOSPITAL
Notes to Financial Statements
June 30, 2012 and 2011

NOTE H - PENSION AND RETIREMENT BENEFITS

The Hospital contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa 50306-9117.

Plan members are required to contribute 5.38% (5.78% beginning July 1, 2012) of their annual salary and the Hospital is required to contribute 8.07% (8.67% beginning July 1, 2012) of annual covered payroll. Contribution requirements are established by State statute. The Hospital's contributions to IPERS for the years ended June 30, 2012, 2011, and 2010, were approximately \$1,006,000, \$851,000, and \$794,000, respectively, equal to the required contributions for each year.

NOTE I - DEFERRED COMPENSATION PLAN

The Hospital sponsors a deferred compensation plan which is administered by an independent contractor under Internal Revenue Code Section 457. The plan permits employees to defer a portion of their salary until future years. The Hospital's human resource and payroll departments are responsible for the accounting, reconciliations and recordkeeping associated with employees' enrollment, payments to the plan through payroll deductions and timely transfer of withheld funds to the trustee designated by the participant for investment. The plan is designed so that each participant retains investment control of his/her individual account. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

The Hospital's fiduciary responsibility is limited to due care in selecting the plan administrator. The administrator is responsible for withholdings and W-2s when the participants receive payments. The administrator is also required to submit an annual report to the Hospital. The Hospital is liable to a participant only for income lost because of its failure to send payment of a deferred amount as directed by the participant.

The market value of the exclusive benefit plan assets at June 30, 2012, was approximately \$2,414,578, (\$2,316,904 at June 30, 2011). This amount is not included in the financial statements since the Hospital does not own or hold in a trustee capacity the amounts deferred by employees and related income on those amounts.

MONTGOMERY COUNTY MEMORIAL HOSPITAL
Notes to Financial Statements
June 30, 2012 and 2011

NOTE J - RELATED ORGANIZATIONS

Health Partners of Southwest Iowa

The Hospital has joined with two other area hospitals (Cass County Memorial Hospital of Atlantic and Myrtue Medical Center of Harlan) to form a 28E organization, Health Partners of Southwest Iowa (HPSI). The organization was formed to share ideas, capital, and resources and to assist in the containment of healthcare costs, while improving the quality of healthcare being delivered in the member hospital service areas. Each of the three members purchase mobile scanning and other medical services from the organization.

Below is a summary of the Hospital's transactions with HPSI and year end balances involving the 28E organization:

	<u>2012</u>	<u>2011</u>
Services purchased from HPSI	\$ <u>80,954</u>	\$ <u>90,037</u>
Services and supplies provided to HPSI	\$ <u>27,679</u>	\$ <u>28,029</u>
Amount due to HPSI	\$ <u>16,574</u>	\$ <u>18,033</u>
Member share of net assets	\$ <u>427,814</u>	\$ <u>387,037</u>

The member share of net assets is included in other assets and the amount due to HPSI is included in accounts payable on the balance sheet. The Hospital has no ongoing financial interest in or responsibility to HPSI, other than that disclosed above. Financial statements of HPSI are on file at the Hospital and the office of the State Auditor.

Montgomery County Memorial Hospital Foundation

Montgomery County Memorial Hospital Foundation is a separate not for profit organization with an independent board of directors. The Hospital is the sole beneficiary of the Foundation, therefore the Foundation is considered to be a component unit of the Hospital (see Note A.1). During the year ended June 30, 2012, contributions received from this organization were \$30,355 (\$24,650 for 2011).

MONTGOMERY COUNTY MEMORIAL HOSPITAL
Notes to Financial Statements
June 30, 2012 and 2011

NOTE K - COMMITMENTS AND CONTINGENCIES

Notes Receivable

The notes receivable represent funds advanced under agreements with physicians who have begun to practice in the community. The agreements include commitments by the physicians to provide medical services in the community for a specified period of years. In exchange for the commitments of time and services, the Hospital will forgive the notes over the terms of the commitments.

Risk Management

The Hospital is insured by a claims-made policy for protection against liability claims resulting from professional services provided or which should have been provided. Management believes that the malpractice insurance coverage is adequate to cover all asserted and any unasserted claims, therefore no related liability has been accrued. Montgomery County Memorial Hospital is exposed to various other common business risks for which it is covered by commercial insurance. Settled claims from these risks have not exceeded insurance coverage during the past three years.

Other Post Employment Benefits (OPEB)

Plan Description: As required by state law, the Hospital offers health insurance to former employees who have retired after age 55, but have not reached Medicare eligibility. The fully insured plan is a part of the plan offered to all Hospital employees, and the retiree must pay a health insurance premium equal to that charged for current employees. There are 203 active employees and 2 retirees currently covered by the plan.

Potential for Liability: A review of the Hospital's current and potential future exposure to this requirement resulted in the conclusion that no material liability exists. Therefore no liability has been recorded.

Subsequent Event

The Hospital has evaluated all subsequent events through December 12, 2012, the date the financial statements were available to be issued.

MONTGOMERY COUNTY MEMORIAL HOSPITAL
Notes to Financial Statements
June 30, 2012 and 2011

NOTE L - ACCOUNTS RECEIVABLE AND CONCENTRATION OF CREDIT RISK

The Hospital grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors at June 30, 2012 and 2011, was as follows:

	<u>2012</u>	<u>2011</u>
Receivable from:		
Patients	\$ 898,755	\$ 814,130
Medicare	3,000,041	2,194,921
Medicaid	293,283	281,398
Blue Cross	1,178,043	861,801
Other commercial insurance carriers	759,669	680,093
Others	<u>33,549</u>	<u>46,988</u>
	6,163,340	4,879,331
Less allowances for doubtful accounts and contractual adjustments	<u>1,519,000</u>	<u>1,338,447</u>
	<u>\$ 4,644,340</u>	<u>\$ 3,540,884</u>

* * *

REQUIRED SUPPLEMENTARY INFORMATION

MONTGOMERY COUNTY MEMORIAL HOSPITAL
Budgetary Comparison Schedule
Year ended June 30, 2012

This budgetary comparison is presented as Required Supplementary Information in accordance with Government Auditing Standards. In accordance with the Code of Iowa, the Board of Trustees annually adopts a budget following the required public notice and hearings. The annual budget may be amended during the year utilizing similar statutorily-prescribed procedures. The following is a reconciliation between reported amounts and the modified accrual basis used to prepare the budget. The adjustment results from accounting for interest, plant and equipment purchases, debt payments, and net assets differently for financial statement and budget purposes.

	Per Financial Statements		
	Unrestricted Fund	Restricted Fund	Total
Amount raised by taxation	\$ 1,458,468	\$ --	\$ 1,458,468
Other revenues	26,768,787	93,262	26,862,049
Transfers in (out)	<u>93,116</u>	<u>(93,116)</u>	<u>--</u>
	28,320,371	146	28,320,517
Expenses	<u>27,521,303</u>	<u>--</u>	<u>27,521,303</u>
Net	799,068	146	799,214
Balance beginning of year	<u>23,623,373</u>	<u>71,197</u>	<u>23,694,570</u>
Balance end of year	<u>\$ 24,422,441</u>	<u>\$ 71,343</u>	<u>\$ 24,493,784</u>

	Total Per Financial Statements	Budget Adjustments	Budget Basis	Adopted Budget
Amount raised by taxation	\$ 1,458,468	\$ --	\$ 1,458,468	\$ 1,394,535
Other revenues	<u>26,862,049</u>	<u>449,086</u>	<u>27,311,135</u>	<u>31,191,115</u>
	28,320,517	449,086	28,769,603	32,585,650
Expenses	<u>27,521,303</u>	<u>667,718</u>	<u>28,189,021</u>	<u>34,062,807</u>
Net	799,214	(218,632)	580,582	(1,477,157)
Balance beginning of year	<u>23,694,570</u>	<u>(16,516,745)</u>	<u>7,177,825</u>	<u>7,177,825</u>
Balance end of year	<u>\$ 24,493,784</u>	<u>\$(16,735,377)</u>	<u>\$ 7,758,407</u>	<u>\$ 5,700,668</u>

See Independent Auditor's Report.

SUPPLEMENTARY INFORMATION

MONTGOMERY COUNTY MEMORIAL HOSPITAL
Patient Receivables
June 30,

Analysis of Aging:

Days Since Discharge	2012		2011	
	Amount	Percent to Total	Amount	Percent to Total
0 - 30	\$ 1,691,422	27.4%	\$ 1,933,195	39.6%
31 - 90	1,855,878	30.1	1,102,678	22.6
91 - 180	399,268	6.5	385,188	7.9
181 - 360	172,917	2.8	156,029	3.2
361 and over	121,199	2.0	229,789	4.7
	<u>4,240,684</u>	<u>68.8</u>	<u>3,806,879</u>	<u>78.0</u>
In hospital and unbilled	<u>1,922,656</u>	<u>31.2</u>	<u>1,072,452</u>	<u>22.0</u>
	<u>6,163,340</u>	<u>100.0%</u>	<u>4,879,331</u>	<u>100.0%</u>

Less:

Allowance for doubtful accounts	321,000	319,447
Allowance for contractual adjustments	<u>1,198,000</u>	<u>1,019,000</u>
	<u>\$ 4,644,340</u>	<u>\$ 3,540,884</u>

Allowance for Doubtful Accounts:

	Year Ended June 30,	
	2012	2011
Balance, beginning	\$ 319,447	\$ 316,000
Provision for bad debts	885,561	1,178,930
Recoveries of accounts previously written off	<u>353,696</u>	<u>224,904</u>
	<u>1,558,704</u>	<u>1,719,834</u>
Accounts written off	<u>1,237,704</u>	<u>1,400,387</u>
Balance, ending	<u>\$ 321,000</u>	<u>\$ 319,447</u>

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MONTGOMERY COUNTY MEMORIAL HOSPITAL
Inventory/Prepaid Expense
June 30,

	<u>2012</u>	<u>2011</u>
<u>Inventory</u>		
General stores	\$ 96,194	\$ 209,060
Pharmacy	196,608	188,086
Dietary	15,282	16,448
Operating room	<u>88,403</u>	<u>--</u>
	<u>\$ 396,487</u>	<u>\$ 413,594</u>
 <u>Prepaid Expense</u>		
Dues	\$ 14,698	\$ 14,514
General insurance	72,938	259,535
Service contracts	<u>81,337</u>	<u>156,841</u>
	<u>\$ 168,973</u>	<u>\$ 430,890</u>

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MONTGOMERY COUNTY MEMORIAL HOSPITAL

Patient Service Revenue

Year ended June 30,

	2012	
	Inpatient	Outpatient
Daily Patient Services:		
Medical, surgical and obstetric	\$ 1,162,452	\$ 259,069
Coronary care	1,625,164	235,673
Nursery	<u>101,273</u>	<u>32</u>
	2,888,889	494,774
Other Nursing Services:		
Operating room	237,433	1,581,241
Recovery room	10,209	155,941
Labor and delivery rooms	86,370	39,993
Medical supplies	601,461	1,121,514
Intravenous therapy	1,818,900	727,011
Emergency service	660	1,806,486
Wound/ostomy care	245	18,629
Outpatient clinics	<u>1,899</u>	<u>287,955</u>
	2,757,177	5,738,770
Other Professional Services:		
Emergency room physicians	--	1,008,273
Laboratory	682,371	2,392,270
Electrocardiology	89,175	301,339
Electroencephalography	6,573	11,405
Radiology	135,346	1,585,629
Ultrasound	59,753	780,876
CT scan	218,875	2,932,303
Mammography	--	398,033
MRI	71,885	1,123,510
Nuclear medicine	30,339	179,557
Pharmacy	1,540,619	1,469,465
Anesthesiology	147,217	631,695
Inhalation therapy	921,690	381,951
Physical therapy	108,498	983,035
Speech therapy	11,503	49,144
Occupational therapy	8,146	183,752
Cardiopulmonary rehabilitation	--	120,210
Oncology	15,489	1,694,208
Sleep study	--	199,534
Home health	--	458,912
Hospice	--	355,057
Business health	--	116,221
Women's Health Clinic	--	443,853
Villisca Medical Clinic	--	189,291
Surgical services	--	982,189
Internal Medicine Clinic	<u>--</u>	<u>1,985,801</u>
	4,047,479	20,957,513
	<u>\$ 9,693,545</u>	<u>\$ 27,191,057</u>

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2012		2011
Swing Bed	Total	Total
\$ 1,587,639	\$ 3,009,160	\$ 2,859,110
--	1,860,837	1,932,683
--	101,305	88,671
<u>1,587,639</u>	<u>4,971,302</u>	<u>4,880,464</u>
18,814	1,837,488	1,802,318
998	167,148	182,286
--	126,363	117,852
350,365	2,073,340	2,051,244
838,883	3,384,794	3,040,297
33	1,807,179	1,863,518
3,980	22,854	20,140
2,055	291,909	275,306
<u>1,215,128</u>	<u>9,711,075</u>	<u>9,352,961</u>
--	1,008,273	1,011,645
271,608	3,346,249	3,503,666
9,736	400,250	433,671
2,398	20,376	16,372
52,068	1,773,043	1,450,053
10,121	850,750	726,070
40,790	3,191,968	2,533,590
203	398,236	380,629
11,375	1,206,770	990,910
4,440	214,336	175,580
1,232,470	4,242,554	3,952,006
8,680	787,592	752,144
696,673	2,000,314	2,148,098
287,011	1,378,544	1,256,338
20,062	80,709	91,649
47,028	238,926	217,277
--	120,210	133,655
10,085	1,719,782	1,952,860
--	199,534	284,808
--	458,912	437,398
--	355,057	406,925
--	116,221	107,993
--	443,853	435,922
--	189,291	223,592
--	982,189	911,857
--	1,985,801	1,973,020
<u>2,704,748</u>	<u>27,709,740</u>	<u>26,507,728</u>
<u>\$ 5,507,515</u>	<u>\$ 42,392,117</u>	<u>\$ 40,741,153</u>

MONTGOMERY COUNTY MEMORIAL HOSPITAL
Revenue and Related Adjustments
Year ended June 30,

	<u>2012</u>	<u>2011</u>
Net Patient Service Revenue:		
Patient service revenue	\$ 42,392,117	\$ 40,741,153
Contractual adjustments	(14,643,838)	(13,951,461)
Discounts and allowances	(120,467)	(146,056)
Charity care	(241,080)	(70,548)
Provision for bad debts	(885,561)	(1,178,930)
	<u>\$ 26,501,171</u>	<u>\$ 25,394,158</u>
Other Operating Revenue:		
Meals sold	\$ 94,685	\$ 99,399
Prisoner meals	29,451	21,240
Meals on wheels	34,347	35,493
Lifeline	63,886	63,714
Medical record transcripts	1,825	4,565
Case management	45,049	30,548
Wellness	29,000	32,615
Contracted services	24,490	16,770
Certified training classes	2,960	8,962
Miscellaneous	63,452	22,006
	<u>\$ 389,145</u>	<u>\$ 335,312</u>

See Independent Auditor's Report.

MONTGOMERY COUNTY MEMORIAL HOSPITAL
Nursing Service Expenses
Year ended June 30,

	<u>2012</u>	<u>2011</u>
Administrative:		
Salaries and wages	\$ 161,690	\$ 169,679
Employee benefits	46,901	38,972
Supplies and other expense	<u>8,647</u>	<u>13,420</u>
	217,238	222,071
Quality Assurance:		
Salaries and wages	65,174	59,766
Employee benefits	15,439	13,699
Supplies and other expense	<u>9,200</u>	<u>6,006</u>
	89,813	79,471
Inservice:		
Salaries and wages	60,770	64,299
Employee benefits	29,664	15,055
Supplies and other expense	<u>31,637</u>	<u>28,957</u>
	122,071	108,311
Medical and Surgical:		
Salaries and wages	1,660,444	1,676,731
Employee benefits	565,317	529,966
Supplies and other expense	<u>155,977</u>	<u>191,515</u>
	2,381,738	2,398,212
Coronary Care:		
Salaries and wages	920,088	822,651
Employee benefits	308,577	274,311
Supplies and other expense	<u>39,321</u>	<u>159,465</u>
	1,267,986	1,256,427
Obstetric:		
Salaries and wages	31,217	36,238
Employee benefits	4,822	5,139
Supplies and other expense	<u>17,185</u>	<u>1,884</u>
	53,224	43,261

(continued next page)

MONTGOMERY COUNTY MEMORIAL HOSPITAL
Nursing Service Expenses - Continued
Year ended June 30,

	<u>2012</u>	<u>2011</u>
Nursery:		
Salaries and wages	\$ 37,470	\$ 33,943
Employee benefits	5,800	4,817
Supplies and other expense	<u>2,938</u>	<u>7,632</u>
	46,208	46,392
Operating Room:		
Salaries and wages	406,302	413,058
Employee benefits	149,790	137,622
Supplies and other expense	<u>171,229</u>	<u>201,052</u>
	727,321	751,732
Labor and Delivery:		
Salaries and wages	17,323	18,537
Employee benefits	2,676	2,630
Supplies and other expense	<u>608</u>	<u>19,649</u>
	20,607	40,816
Central Services and Supply:		
Salaries and wages	186,469	190,336
Employee benefits	85,229	69,723
Supplies sold to patients	494,107	510,208
Supplies and other expense	<u>9,217</u>	<u>10,540</u>
	775,022	780,807
Intravenous Therapy:		
Solutions	33,525	36,676
Emergency Services:		
Salaries and wages	536,011	495,126
Employee benefits	113,019	117,201
Supplies and other expense	<u>45,313</u>	<u>65,888</u>
	694,343	678,215
Outpatient Clinics:		
Salaries and wages	271,865	277,980
Employee benefits	100,280	94,215
Supplies and other expense	<u>38,042</u>	<u>55,507</u>
	410,187	427,702
	<u>\$ 6,839,283</u>	<u>\$ 6,870,093</u>

(continued next page)

MONTGOMERY COUNTY MEMORIAL HOSPITAL
Nursing Service Expenses - Continued
Year ended June 30,

	<u>2012</u>	<u>2011</u>
<u>SUMMARY</u>		
Salaries and wages	\$ 4,354,823	\$ 4,258,344
Employee benefits	1,427,514	1,303,350
Other expense	<u>1,056,946</u>	<u>1,308,399</u>
	<u>\$ 6,839,283</u>	<u>\$ 6,870,093</u>

See Independent Auditor's Report.

MONTGOMERY COUNTY MEMORIAL HOSPITAL
Other Professional Service Expenses
Year ended June 30,

	<u>2012</u>	<u>2011</u>
Emergency Room Physicians:		
Professional fees	\$ 1,009,326	\$ 1,010,273
Laboratory:		
Salaries and wages	522,431	521,926
Employee benefits	149,787	136,983
Purchased services	99,697	114,341
Supplies and other expense	<u>544,921</u>	<u>485,027</u>
	1,316,836	1,258,277
Blood Bank:		
Cost of blood	153,774	158,987
Electrocardiology:		
Salaries and wages	17,991	17,065
Employee benefits	2,781	2,431
Purchased services	93,616	96,439
Supplies and other expense	<u>--</u>	<u>520</u>
	114,388	116,455
Electroencephalography:		
Salaries and wages	868	1,008
Employee benefits	135	144
Supplies and other expense	<u>--</u>	<u>447</u>
	1,003	1,599
Radiology:		
Salaries and wages	480,222	492,188
Employee benefits	153,170	137,130
Supplies and other expense	<u>112,493</u>	<u>222,843</u>
	745,885	852,161
Ultrasound:		
Salaries and wages	95,500	101,646
Employee benefits	22,054	25,911
Supplies and other expense	<u>49,545</u>	<u>29,079</u>
	167,099	156,636

(continued next page)

MONTGOMERY COUNTY MEMORIAL HOSPITAL
Other Professional Service Expenses - Continued
Year ended June 30,

	<u>2012</u>	<u>2011</u>
CT Scan:		
Salaries and wages	\$ --	\$ 2,525
Employee benefits	--	7,354
Supplies and other expense	<u>229,491</u>	<u>106,695</u>
	229,491	116,574
Mammography:		
Purchased services	97,740	95,990
Supplies and other expense	<u>19,369</u>	<u>15,572</u>
	117,109	111,562
MRI:		
Purchased services	151,500	154,000
Supplies and other expense	<u>6,825</u>	<u>8,104</u>
	158,325	162,104
Nuclear Medicine:		
Purchased services	40,895	58,742
Supplies and other expense	<u>--</u>	<u>488</u>
	40,895	59,230
Pharmacy:		
Salaries and wages	308,663	318,205
Employee benefits	64,366	63,399
Purchased services	85,470	85,909
Drugs	602,175	567,876
Supplies and other expense	<u>22,271</u>	<u>13,219</u>
	1,082,945	1,048,608
Anesthesiology:		
Salaries and wages	419,873	373,094
Employee benefits	78,946	68,665
Professional fees	1,678	220
Supplies and other expense	<u>41,160</u>	<u>25,679</u>
	541,657	467,658
Inhalation Therapy:		
Salaries and wages	354,485	338,822
Employee benefits	106,834	92,005
Purchased services	550	--
Supplies and other expense	<u>50,430</u>	<u>59,105</u>
	512,299	489,932

(continued next page)

MONTGOMERY COUNTY MEMORIAL HOSPITAL
Other Professional Service Expenses - Continued
Year ended June 30,

	<u>2012</u>	<u>2011</u>
Physical Therapy:		
Professional fees	\$ 523,165	\$ 477,772
Supplies and other expense	<u>12,970</u>	<u>24,229</u>
	536,135	502,001
Speech Therapy:		
Professional fees	58,095	43,632
Occupational Therapy:		
Professional fees	95,464	83,511
Cardiopulmonary Rehabilitation:		
Salaries and wages	104,583	111,040
Employee benefits	30,226	28,035
Supplies and other expense	<u>5,554</u>	<u>9,797</u>
	140,363	148,872
Oncology:		
Salaries and wages	162,741	155,948
Employee benefits	38,137	25,324
Supplies and other expense	<u>509,898</u>	<u>500,249</u>
	710,776	681,521
Sleep Study:		
Salaries and wages	54,943	75,744
Employee benefits	10,514	19,425
Supplies and other expense	<u>14,695</u>	<u>17,142</u>
	80,152	112,311
Home Health:		
Salaries and wages	276,709	274,577
Employee benefits	91,306	88,816
Professional fees	76,490	114,232
Purchased services	21,064	17,834
Supplies and other expense	<u>31,195</u>	<u>28,066</u>
	496,764	523,525

(continued next page)

MONTGOMERY COUNTY MEMORIAL HOSPITAL
Other Professional Service Expenses - Continued
Year ended June 30,

	<u>2012</u>	<u>2011</u>
Hospice:		
Salaries and wages	\$ 65,158	\$ 104,459
Employee benefits	14,778	20,321
Purchased services	71,473	100,712
Supplies and other expense	<u>45,081</u>	<u>29,158</u>
	196,490	254,650
Business Health:		
Salaries and wages	36,292	34,814
Employee benefits	10,416	11,260
Supplies and other expense	<u>16,160</u>	<u>19,626</u>
	62,868	65,700
Women's Health Clinic:		
Salaries and wages	332,146	315,296
Employee benefits	97,148	95,188
Supplies and other expense	<u>47,941</u>	<u>65,723</u>
	477,235	476,207
Villisca Medical Clinic:		
Salaries and wages	164,424	174,997
Employee benefits	50,269	51,630
Supplies and other expense	<u>63,887</u>	<u>58,298</u>
	278,580	284,925
Surgical Services:		
Salaries and wages	382,561	378,682
Employee benefits	53,100	48,959
Supplies and other expense	<u>37,246</u>	<u>31,148</u>
	472,907	458,789
Internal Medicine Clinic:		
Salaries and wages	918,820	917,459
Employee benefits	237,253	225,648
Purchased services	46,485	39,573
Supplies and other expense	<u>75,320</u>	<u>83,430</u>
	1,277,878	1,266,110
Social Services:		
Salaries and wages	103,212	101,665
Employee benefits	26,946	23,983
Supplies and other expense	<u>2,152</u>	<u>2,099</u>
	132,310	127,747

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MONTGOMERY COUNTY MEMORIAL HOSPITAL
Other Professional Service Expenses - Continued
Year ended June 30,

	<u>2012</u>	<u>2011</u>
Lifeline:		
Supplies and other expense	\$ 57,056	\$ 56,713
Health Information Management:		
Salaries and wages	318,793	311,201
Employee benefits	97,767	88,652
Supplies and other expense	<u>48,897</u>	<u>74,625</u>
	465,457	474,478
Case Management:		
Salaries and wages	1,411	5,683
Employee benefits	147	100
Supplies and other expense	<u>7,340</u>	<u>2,005</u>
	8,898	7,788
Diabetes Program:		
Salaries and wages	74,520	77,466
Employee benefits	24,017	21,832
Supplies and other expense	<u>4,594</u>	<u>2,835</u>
	103,131	102,133
Wound/Ostomy Care:		
Purchased services	<u>--</u>	<u>26</u>
	<u>\$ 11,841,591</u>	<u>\$ 11,680,695</u>

SUMMARY

Salaries and wages	\$ 5,196,346	\$ 5,205,510
Employee benefits	1,360,097	1,283,195
Professional fees	1,764,218	1,729,640
Other expense	<u>3,520,930</u>	<u>3,462,350</u>
	<u>\$ 11,841,591</u>	<u>\$ 11,680,695</u>

See Independent Auditor's Report.

MONTGOMERY COUNTY MEMORIAL HOSPITAL
General Service Expenses
Year ended June 30,

	<u>2012</u>	<u>2011</u>
Dietary:		
Salaries and wages	\$ 451,234	\$ 449,162
Employee benefits	182,038	166,760
Food	214,866	210,586
Supplies and other expense	<u>46,609</u>	<u>48,117</u>
	894,747	874,625
Housekeeping:		
Salaries and wages	407,158	410,604
Employee benefits	195,024	173,271
Purchased services	23,872	23,222
Supplies and other expense	<u>105,844</u>	<u>108,142</u>
	731,898	715,239
Laundry and Linen:		
Purchased services	110,214	98,492
Supplies and other expense	<u>3,419</u>	<u>2,281</u>
	113,633	100,773
Plant Engineering:		
Salaries and wages	199,905	250,626
Employee benefits	47,934	49,217
Utilities	386,628	384,172
Purchased services	37,800	36,861
Supplies and other expense	<u>168,919</u>	<u>168,995</u>
	841,186	889,871
	<u>\$ 2,581,464</u>	<u>\$ 2,580,508</u>

SUMMARY

Salaries and wages	\$ 1,058,297	\$ 1,110,392
Employee benefits	424,996	389,248
Other expense	<u>1,098,171</u>	<u>1,080,868</u>
	<u>\$ 2,581,464</u>	<u>\$ 2,580,508</u>

See Independent Auditor's Report.

MONTGOMERY COUNTY MEMORIAL HOSPITAL
Fiscal and Administrative Service Expenses
Year ended June 30,

	<u>2012</u>	<u>2011</u>
Administrative:		
Salaries and wages	\$ 264,564	\$ 256,694
Employee benefits	227,080	189,462
Professional fees	59,745	87,212
Dues and subscriptions	34,894	54,051
Purchased services	25,145	26,460
Collection fees	53,829	56,333
Telephone	30,292	35,992
Supplies and other expense	<u>141,567</u>	<u>201,578</u>
	837,116	907,782
Accounting:		
Salaries and wages	210,605	203,394
Employee benefits	57,539	55,047
Supplies and other expense	<u>20,854</u>	<u>22,328</u>
	288,998	280,769
Admissions/Business Office:		
Salaries and wages	229,436	224,626
Employee benefits	75,166	75,852
Supplies and other expense	<u>27,955</u>	<u>29,157</u>
	332,557	329,635
Patient Accounting:		
Salaries and wages	243,376	249,108
Employee benefits	88,460	82,571
Supplies and other expense	<u>49,802</u>	<u>51,228</u>
	381,638	382,907
Fiscal Services:		
Salaries and wages	128,951	120,441
Employee benefits	66,769	58,450
Purchased services	2,293	4,028
Supplies and other expense	<u>4,598</u>	<u>8,228</u>
	202,611	191,147
Information Systems:		
Salaries and wages	738,042	626,982
Employee benefits	204,091	156,485
Purchased services and maintenance	337,209	382,707
Supplies and other expense	<u>71,233</u>	<u>122,070</u>
	1,350,575	1,288,244

(continued next page)

MONTGOMERY COUNTY MEMORIAL HOSPITAL
Fiscal and Administrative Service Expenses - Continued
Year ended June 30,

	<u>2012</u>	<u>2011</u>
Human Resources:		
Salaries and wages	\$ 81,970	\$ 85,957
Employee benefits	41,942	48,249
Purchased services	4,312	3,914
Supplies and other expense	<u>25,062</u>	<u>32,269</u>
	153,286	170,389
Public Relations:		
Salaries and wages	78,910	78,974
Employee benefits	16,886	15,305
Supplies and other expense	<u>97,660</u>	<u>93,492</u>
	193,456	187,771
DRG/Utilization Review:		
Salaries and wages	101,756	96,756
Employee benefits	27,183	24,062
Supplies and other expense	<u>1,655</u>	<u>777</u>
	130,594	121,595
Insurance:		
Liability and property insurance	<u>141,021</u>	<u>145,771</u>
	<u>\$ 4,011,852</u>	<u>\$ 4,006,010</u>

SUMMARY

Salaries and wages	\$ 2,077,610	\$ 1,942,932
Employee benefits	805,116	705,483
Professional fees	59,745	87,212
Other expense	<u>1,069,381</u>	<u>1,270,383</u>
	<u>\$ 4,011,852</u>	<u>\$ 4,006,010</u>

SUMMARY OF EXPENSES

Salaries and wages	\$ 12,687,076	\$ 12,517,178
Employee benefits	4,017,723	3,681,276
Professional fees	1,823,963	1,816,852
Other expense	<u>6,745,428</u>	<u>7,122,000</u>
	<u>\$ 25,274,190</u>	<u>\$ 25,137,306</u>

See Independent Auditor's Report.

MONTGOMERY COUNTY MEMORIAL HOSPITAL
Comparative Statistics
Year ended June 30,

	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
Admissions	798	825	906	1,099	1,103
Discharges	797	825	915	1,096	1,102
Average Length of Stay	3.70	3.54	3.70	3.63	3.44
Acute Patient Days	2,947	2,919	3,387	3,982	3,795
Average Occupied Beds	8.1	8.0	9.3	10.9	10.4
Swing Bed Days	2,755	2,716	2,750	2,290	2,376
Combined Average Occupied Beds	15.6	15.4	16.8	17.2	16.9
Beds Available	25	25	25	25	25
Nursery Days	150	126	158	190	212
Outpatient Occasions of Service	39,031	40,682	40,328	42,096	39,720

See Independent Auditor's Report.

MONTGOMERY COUNTY MEMORIAL HOSPITAL
Comparative Balance Sheets
June 30,

	<u>2012</u>	<u>2011</u>
Current Assets:		
Cash	\$ 1,657,621	\$ 1,890,890
Receivables, net	4,706,719	3,597,681
Inventory	396,487	413,594
Prepaid expense	168,973	430,890
Estimated third-party payor settlements	--	938,000
Succeeding year property tax receivable	1,469,000	1,395,000
Internally designated assets	<u>92,406</u>	<u>91,989</u>
Total current assets	8,491,206	8,758,044
Other Assets:		
Internally designated and restricted assets	6,403,545	5,484,053
Capital assets, net	21,455,529	21,924,713
Other non-current assets	<u>622,778</u>	<u>614,443</u>
Total other assets	<u>28,481,852</u>	<u>28,023,209</u>
	<u>\$ 36,973,058</u>	<u>\$ 36,781,253</u>
Current Liabilities:		
Current maturities of long-term debt	\$ 434,609	\$ 430,524
Accounts payable	1,167,688	1,670,469
Estimated third-party payor settlements	207,000	--
Accrued expenses	1,568,097	1,416,584
Deferred revenue for succeeding year property tax receivable	<u>1,469,000</u>	<u>1,395,000</u>
Total current liabilities	4,846,394	4,912,577
Long-Term Debt, Net	7,632,880	8,174,106
Net Assets	<u>24,493,784</u>	<u>23,694,570</u>
	<u>\$ 36,973,058</u>	<u>\$ 36,781,253</u>

See Independent Auditor's Report.

<u>2010</u>	<u>2009</u>	<u>2008</u>
\$ 584,377	\$ 1,138,063	\$ 1,986,147
4,670,816	4,102,927	3,927,422
397,955	387,787	301,609
419,605	127,948	144,864
554,000	--	--
1,364,000	1,282,000	1,225,000
<u>847,260</u>	<u>1,003,162</u>	<u>805,071</u>
8,838,013	8,041,887	8,390,113
3,638,107	6,430,070	9,342,307
20,655,089	13,595,321	10,071,071
<u>616,663</u>	<u>737,604</u>	<u>664,035</u>
24,909,859	20,762,995	20,077,413
<u>\$ 33,747,872</u>	<u>\$ 28,804,882</u>	<u>\$ 28,467,526</u>
\$ 727,444	\$ 497,340	\$ 527,627
1,508,912	673,622	428,478
--	35,000	457,000
1,325,410	1,265,831	1,086,775
<u>1,364,000</u>	<u>1,282,000</u>	<u>1,225,000</u>
4,925,766	3,753,793	3,724,880
4,589,123	1,653,893	2,151,233
<u>24,232,983</u>	<u>23,397,196</u>	<u>22,591,413</u>
<u>\$ 33,747,872</u>	<u>\$ 28,804,882</u>	<u>\$ 28,467,526</u>

MONTGOMERY COUNTY MEMORIAL HOSPITAL
Comparative Statements of Revenues and Expenses
Year ended June 30,

	<u>2012</u>	<u>2011</u>
Patient Service Revenue	\$ 42,392,117	\$ 40,741,153
Adjustments to Patient Service Revenue	<u>(15,890,946)</u>	<u>(15,346,995)</u>
Net Patient Service Revenue	26,501,171	25,394,158
Other Revenue	<u>389,145</u>	<u>335,312</u>
Total Revenue	26,890,316	25,729,470
Expenses	<u>27,521,303</u>	<u>27,568,560</u>
Operating Loss	(630,987)	(1,839,090)
Non-Operating Revenue, Net	<u>1,337,085</u>	<u>1,255,677</u>
Excess of Revenues Over Expenses (Expenses Over Revenues) Before Capital Grants and Contributions	706,098	(583,413)
Capital Grants and Contributions	<u>93,116</u>	<u>45,000</u>
Increase (Decrease) in Net Assets	<u>\$ 799,214</u>	<u>\$ (538,413)</u>

See Independent Auditor's Report.

<u>2010</u>	<u>2009</u>	<u>2008</u>
\$ 37,807,125	\$ 36,707,743	\$ 30,618,227
<u>(13,158,375)</u>	<u>(13,097,499)</u>	<u>(9,807,635)</u>
24,648,750	23,610,244	20,810,592
<u>388,907</u>	<u>415,627</u>	<u>385,803</u>
25,037,657	24,025,871	21,196,395
<u>25,664,355</u>	<u>24,849,053</u>	<u>21,875,984</u>
(626,698)	(823,182)	(679,589)
<u>1,398,090</u>	<u>1,603,965</u>	<u>1,761,089</u>
771,392	780,783	1,081,500
<u>64,395</u>	<u>25,000</u>	<u>27,657</u>
<u>\$ 835,787</u>	<u>\$ 805,783</u>	<u>\$ 1,109,157</u>

COMMENTS AND RECOMMENDATIONS

Gronewold, Bell, Kyhnn & Co. P.C.

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Independent Auditor's Report on Internal Control over Financial Reporting
and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance with
Government Auditing Standards

To the Board of Trustees
Montgomery County Memorial Hospital
Red Oak, Iowa

We have audited the financial statements of Montgomery County Memorial Hospital as of and for the year ended June 30, 2012, and have issued our report thereon dated December 12, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

The management of Montgomery County Memorial Hospital is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Montgomery County Memorial Hospital's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of Montgomery County Memorial Hospital's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Hospital's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses, and, therefore, there can be no assurance all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the Hospital's financial statements will not be prevented or detected and corrected on a timely basis.

To the Board of Trustees
Montgomery County Memorial Hospital

A significant deficiency is a deficiency or combination of deficiencies in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in Part I of the accompanying Schedule of Findings as item 12-I-A to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Montgomery County Memorial Hospital's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards.

Comments involving statutory and other legal matters about the Hospital's operations for the year ended June 30, 2012 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Hospital. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Montgomery County Memorial Hospital's response to the findings identified in our audit is described in the accompanying Schedule of Findings. While we have expressed our conclusion on the Hospital's response, we did not audit the Hospital's response and, accordingly, we express no opinion on it.

This report, a public record by law, is intended solely for the information and use of the officials, employees and constituents of Montgomery County Memorial Hospital and other parties to whom the Hospital may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

Gutierrez, Ben, Kuhn & Co. P.C.

Atlantic, Iowa
December 12, 2012

MONTGOMERY COUNTY MEMORIAL HOSPITAL
Schedule of Findings
Year ended June 30, 2012

PART I - FINDINGS RELATED TO THE FINANCIAL STATEMENTS

Significant Deficiencies:

12-I-A Segregation of Duties: A limited number of people have the primary responsibility for most of the accounting and financial duties. As a result, some of those aspects of internal accounting control which rely upon an adequate segregation of duties are, for all practical purposes, missing in the Hospital. This is a common deficiency among most small rural Hospitals.

Recommendation: We recognize that it may not be economically feasible for the Hospital to employ additional personnel for the sole purpose of segregating duties, however, it is our professional responsibility to bring this control deficiency to your attention. We recommend that the Board be aware of the lack of segregation of duties and that they act as an oversight group to the accounting personnel.

Response: The Board is aware of this lack of segregation of duties, but it is not economically feasible for the Hospital to employ additional personnel for this reason. The Board will continue to act as an oversight group.

Conclusion: Response accepted.

* * *

MONTGOMERY COUNTY MEMORIAL HOSPITAL
Schedule of Findings
Year ended June 30, 2012

PART II - OTHER FINDINGS RELATED TO REQUIRED STATUTORY REPORTING

12-II-A Certified Budget: Hospital expenditures during the year ended June 30, 2012 did not exceed amounts budgeted.

12-II-B Questionable Expenditures: During the audit, we noted no expenditures for parties, banquets or other entertainment for employees or Board members.

12-II-C Travel Expense: No expenditures of Hospital money for travel expenses of spouses of Hospital officials and/or employees were noted.

12-II-D Business Transactions: During our audit, we noted no business transactions between the Hospital and Hospital officials.

12-II-E Board Minutes: No transactions were found that we believe should have been approved in the Board minutes but were not.

12-II-F Deposits and Investments: We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the Hospital's investment policy.

* * *